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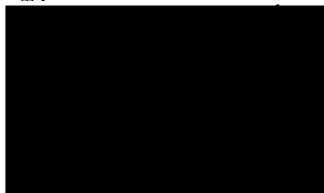
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1. BRITAIN DECIDES TO WITHDRAW FORCES FROM EGYPT

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The British cabinet decided on 27 November that British and French forces would be withdrawn from Port Said without a delay, according to Foreign Office Permanent Under Secretary Kirkpatrick. Plans call for Foreign Secretary Lloyd to tell Parliament on Monday, 3 December, of the government's definite intention to withdraw within 15 days.

Lloyd did not announce the decision on 29 November because Acting Prime Minister Butler felt he needed the week end to enlist sufficient support from Conservative backbenchers to survive, according to Kirkpatrick. Should the government fall on a motion of censure following the anticipated debate, a general election would be held after the Christmas holidays.

Comment

French foreign minister Pineau, who arrives in London on 30 November, will probably agree to withdrawal.

UN secretary general Hammarskjold expects that shortly after Lloyd announces Britain's intentions to withdraw, Egypt will publicly consent to the beginning of clearance operations in the canal. The British government's chief whip told the American embassy on 28 November, however, that Nasr should start to comply with UN resolutions urging clearance of the canal and that a "premature" decision to withdraw would split the Conservative Party wide open. (See Annex, page 9.)

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2. SITUATION IN SYRIA

25X1 [REDACTED] Syrian premier Asali [REDACTED] 25X1

[REDACTED] may fear that a complete change of cabinet at this time would encourage a rightist coup or bring intervention by foreign powers. Another motive is suggested by a report that leaders of the leftist Arab Socialist Resurrectionist Party and the Communist Party, aware that they are unable to form a legal government on their own, now wish to preserve the cabinet while forcing its conservative members to withdraw.

Syria continues to propagandize on the danger of foreign intervention. On 26 November, the Foreign Ministry told an American embassy official that Syria had information that the Baghdad pact powers planned to attack Syria on 29 November. The Syrian official stated that Turkish troops including three armored divisions were concentrating on the Syrian border. The official admitted the reports were not "well corroborated."

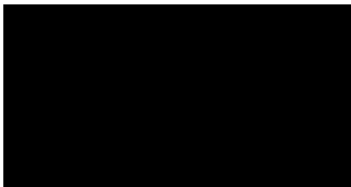
25X1 United Nations observers, who were given full access to the Syrian side of the Syrian-Israeli border on 27 November, saw no preparation for offensive action and found Syrian military positions substantially unchanged from a year ago, [REDACTED] 25X1

[REDACTED] (NOFORN)
(See Annex, page 9.) 25X1

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3. RECENT DEVELOPMENTS GENERATE POLITICAL
UNEASINESS IN THE USSR



The American embassy in Moscow notes that recent developments in the Satellites and Middle East have generated some concern, dissatisfaction and questioning among

Soviet people. Some feel that intervention in Hungary has brought discredit upon the Soviet Union, and express fear that it may foreshadow restoration of more stringent controls at home. The volume and aggressive tone of Soviet propaganda on the Middle East situation appear to have intensified the ever-present fear of war among the Soviet people.

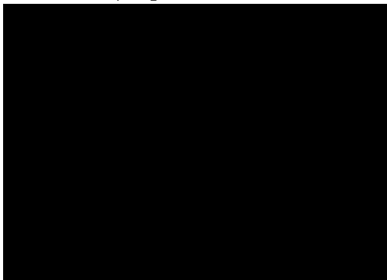
The embassy feels that in this atmosphere it is not surprising that some students and other elements of the population are exhibiting "boldness" and expressing open opposition to the official line. However, embassy personnel have noted no increased security measures in Moscow or other parts of the USSR they have recently visited. Existing controls are apparently deemed adequate to handle any foreseeable contingencies.

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4. NEHRU MAY SEEK LARGE-SCALE FINANCIAL AID DURING US VISIT

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The foreign exchange deficit in the Indian Second Five-Year Plan, which was originally estimated at \$1,680,000,000, has already risen to between \$2,100,000,000 and \$2,300,000,000, according to Indian production minister K. C. Reddy.

The minister told American officials in New Delhi that the rise was due to the world crisis and increasing freight and other import costs. He also commented on India's difficulties in attracting American investment and said that high American prices seemed to preclude construction activity by US firms in India.

Reddy made repeated reference to India's credit needs, and explained that the price of goods to be obtained under the \$126,000,000 loan which India recently accepted from the USSR would be equated to the lowest world competitive prices. Projects to be considered under the Soviet credit, he said, include a fertilizer plant, a shipyard, another oil refinery, a pharmaceutical plant, and "heavy machinery" plants.

Comment

Recent intensive Indian efforts to attract Western capital have been unsuccessful--largely because of private investors' fear of the increasing pace of socialization in India. India's foreign exchange holdings have fallen 24 percent in the last seven months.

Reddy's comments may be aimed at preparing the ground for new approaches for American aid during Nehru's visit to the United States between 16 and 20 December.
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5. COMMUNISTS WIN CONTROL OF ICELANDIC FEDERATION OF LABOR

The Communists won complete control of the Icelandic Federation of Labor (IFL) at its biennial convention which ended on 27 November, [REDACTED]

[REDACTED] Communists were elected to all positions on the Federation and Executive Boards, and the pro-Communist president of the organization was re-elected. Prominent Social Democratic and Progressive Party leaders urged their followers to support Communists in several union delegate elections.

Comment

The IFL has been dominated by Communists since 1954. Consolidation of their control of the IFL strengthens the Communists' influence on the government and makes the ouster from the present coalition of the two Communist cabinet members unlikely.

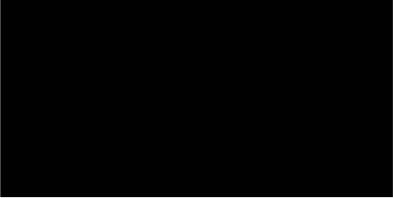
The collaboration between non-Communist parties and the Communists indicates that they are determined to isolate the Conservative Party and prevent it from exercising any decisive influence on governmental or trade union policies.

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6. POLITICAL MANEUVERING OF LAOTIAN PREMIER

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 Premier Souvanna Phouma, having failed to get cabinet approval for his plan to solve the Pathet Lao problem by bringing Pathet leaders into the government, is now creating a diversion by magnifying a constitutional dispute between the assembly and the crown, according to the French chargé in Laos. The chargé believes Souvanna and Pathet chief Souphannouvong are using this tactic to promote Prince Petsarath--in voluntary exile in Thailand--to power as the one man capable of mediating the constitutional issue. Once in power, Petsarath would impose a solution of the Pathet Lao problem favorable to the Pathet Lao.

Comment Souvanna, reportedly on the verge of resigning over cabinet opposition to his solution of the Pathet Lao problem, may be more convinced than ever that only Petsarath has the prestige to bring about a settlement. The recent contact between Souvanna and Souphannouvong, who has been in Vientiane for nearly a month, and Souvanna's alleged desire to turn the premiership over to Petsarath, have fostered the impression that the three men, who are half-brothers, will work out a solution among themselves and impose it on Laos.

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ANNEX

Combined Watch Report 330, 28 November 1956,
of the Intelligence Advisory Committee

Conclusions on indications of hostilities

On the basis of findings by its Watch Committee, the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet Bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet Bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit, although Soviet alerts and other military activities in the Satellites and the USSR continue on a reduced scale.
- C. There are no known Soviet military moves which reflect a Soviet intention to intervene unilaterally in the Middle East. However, Soviet influence in Egypt is hindering the resolution of the conflict between Egypt and the British-French-Israeli coalition. Furthermore, Soviet and Egyptian influence in Syria is increasing internal tension as well as tension between Syria and its neighbors and between Syria and the UK and France, which may result in the outbreak of hostilities between Syria and one or more of these states. Such an outbreak could occur with little warning. In any case, an outbreak of hostilities would increase the possibility of Soviet intervention. (TOP SECRET NOFORN)

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